



June 6, 2011

Statement for the Record

June 22nd Hearing on "Competition in the Railroad Industry"

Docket Number EP 705

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JUN - 6 2011
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Members of the Surface Transportation Board:

Nucor-Yamato Steel and Nucor Steel Arkansas are committed to providing excellent service and quality products to our customers. We understand that in a competitive environment, our customers have choices about where they buy their steel. Our employees strive to be the best that they can be because of this, and as a company, Nucor embraces this competition and feels that it is beneficial to our customers.

Nucor is also a customer for hundreds of vendors. We have the choice to do business with companies who provide us with excellent service at a competitive price.

One of the rare exceptions to vendor competition is with our serving railroad, the Burlington Northern Santa Fe (BNSF). We are a 'captive' customer in that we do not have the ability to make a decision on the rail carrier that we use. This, in turn, has caused us to be at a distinct disadvantage to our competition because they do have the ability to access more than one railroad, thus getting better rates because of the competition.

Before we go into specific areas of issues and concerns let us be clear that **we do not want, or support, re-regulation of the railroad industry.** We want the railroads to be healthy, viable, and profitable. We would rather the government not be involved and allow the market to determine the fair value of rail service. The true market cannot be determined however, when only one entity is setting the price.

Nucor-Yamato Steel has experienced very high increases in rail rates over the last 3-4 years. We have had lanes increase 10-25% on a yearly basis, creating an extraordinary burden on us as we have to compete against companies who are not experiencing these high rate increases.

It should be noted that these price increases have not resulted in an increase of car supply. Conversely, we have seen a reduction in available car equipment in 2011.

The BNSF has told us that this is a result in increased activity and new customers coming into the system. Nucor-Yamato Steel and Nucor Steel Arkansas have been customers of the BNSF for 20 years. We have had a consistent record of shipping cars, with the exception of the downturn of 2008 – 2010. We believe our consistency should be a factor in how the BNSF allocates their railcars. However, this is not the case.

The BNSF instituted a car bidding program called LOGS (Loading Origin Guarantees) which impacts Nucor-Yamato Steel. This is a program where BNSF customers are required to bid on rail cars in order to try to attain a weekly number that they desire. The 'winning' bidders of this program are awarded the cars based on duration. If there is a tie, the winning bidder is determined based on the dollar premium that is put on the car.

The problems with this program are:

1. The program does not determine the actual market value of the cars and bidders of this program are blind as to who else is bidding.
2. The upfront cost just to secure the cars can be very expensive. From June, 2004 to July, 2008 Nucor-Yamato Steel spent over \$7.1 million just to secure railcars. Keep in mind that this is a cost that our competitors did not have to incur as they had other rail options.
3. We can literally be bidding against our sister mill and/or customers to secure these cars and not even know it.

The BNSF, on their website, has stated that the advantage of LOGS is the following:

1. Allows the market to allocate equipment and improve utilization. As stated above, we do not feel it is a fair market indicator as the bid is blind and the dollar premium is a guess by the participants.
2. Allows the railroad to predict demand and manage flows. We have proposed other ways for the BNSF to achieve this goal:
 - a. Allocate cars based on past percentages of use. This would not give us all of the cars we need but would give us our fair share. It should be noted that the BNSF did create a program called RCPro which gave us 60% of our demand but it came with a \$200 premium per car.
 - b. Change the bid process to a live one and allow the participants to bid together in one place.

Additionally, in 2010, the BNSF instituted a pricing increase relative to covered coil cars directly affecting Nucor Steel Arkansas. These customers that use covered cars are now paying a 5% premium over open cars to move the same routing and to the same destination with no guarantees of expedited or premium services. This resulted in an additional \$915,000 being paid by those customers in the timeframe of May 2010-April 2011 to obtain their product.

The above issues are a real concern for Nucor. Captive rail shippers do not enjoy the same rights and privileges as other companies. Having one serving railroad does not allow us to find a fair and competitive price for our customers.

The railroads argue that we are not captive. We have the ability to use other modes of transportation. For Nucor-Yamato Steel and Nucor-AR that would be trucks and barges. While it is true that we have these options, it is not always feasible logistically nor is it always cost effective for our customers.

Again, we do not support the re-regulation of the railroad industry. We need these issues addressed in order to restore our rail freight costs to a level playing field, allowing our production of steel to direct our future and not an uncompetitive and/or unresponsive source outside our realm of accountability.

Respectfully Submitted,

Bill Lowe

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